

## Top 5 Mistakes that Smart Real Estate Investors Make

These common mistakes made by even the most experienced investors are perhaps a bit more subtle, but can negatively affect your wealth due to the fact that the costs can be compounded until the entire portfolio is affected.

### 1. Failure to Mind the Balance Sheet

There are four ways to make money in real estate: cash flow, appreciation, equity growth, and tax benefits. The operating statement shows just one of those--the cash flow. The balance sheet shows the other three.

Just as one adjusts rents and expenses to improve operating performance, the balance sheet and portfolio equity should always be managed to maintain and increase the assets. The primary factor, is not ROI (return on investment); but it's ROE (return on equity). These decisions also affect the speed of wealth creation, growth of the portfolio and tax efficiency.

If you don't understand your balance sheet, sit down with an accountant and get a lesson in the basics.

### 2. Bad Deals and Bad Partners

There is no way to be right every time when it comes to making real estate investment decisions. We're will inevitably wind up with properties that don't perform as expected, or ones we just don't like. A prudent investor must learn to spot a losing position quickly and get out.

This is not to advocate jumping ship on an investment plan because of minor setbacks. All properties have issues, and that's where perseverance is required. Use these experiences to learn from and don't fall in the trap of being "married" to a position.

In many instances, the problem may not be the property, but the people in the partnership. When problems arise in partnerships, especially those that started as friendships, things can get sticky and uncomfortable and get sideways quickly. If your partners are making you crazy, or if you're acting crazy, let cooler heads prevail and be willing to call it over.

If a good buy/sell arrangement was not included in your partnership agreement, make your own.

Close the deal quickly and move on. Life is too short.

### 3. Over-Reaching - Thinking Too Big

Swinging for the bleachers in high-risk, home-run-type deals that require more capital or expertise than you have is a sure recipe for disappointment, frustration, and can end in disaster. Before you start “thinking outside the box” make sure you know how things work inside the box.

It takes hard work and perseverance to achieve success in any field, and real estate is no different. In addition to property-specific game plans, you should have an overall “big-picture” plan of your investments--where they need to take you, how high, and when you need to get there.

As you increase your knowledge and capacity, the big deals will come, and you’ll know you’re ready when you find yourself examining the downside and the pitfalls before the rewards.

### 4. “Dirt-Rich, Cash-Poor”

This refers to the situation of having more land than cash to cover it and is a common outcome for an investor who accumulates many properties in many different market sectors which have nothing in common but their owner.

If you have multiple properties and are using the gains from some to cover losses in others and losing the battle, it’s time to get off the treadmill and restructure your portfolio despite the temptation to keep hanging on.

Go through your portfolio in detail. Identify improvements that you can make immediately and do them. Get rid of the losers and anything that has needs that can’t be funded in the next year.

Then focus your energy and resources on creating maximum value in the remaining properties that fit your big-picture investment goals.

## 5. Not Using Local Market Knowledge

We all read the national media and trade magazines and get a sense of what the “market” is doing. But in reality, all real estate is local. There is no such thing as a national real estate market when it comes to understanding the local trends.

There is not an easy way to know what my buildings are worth. Their value is determined by local market conditions, for example: rental rates, occupancy levels, available inventory, demographic trends and if economic supply and demand principles.

Our existing investments provide a view and an edge on the performance of properties and needs of that market.. But it is only an edge if it’s used.

By systematically collecting just a few local demographic statistics (job growth, population growth and income) and property performance fundamentals, we can get ahead of the curve. This will allow us to see trends coming rather than trying to catch the last one; we create our own opportunities and reduce our vulnerability to competitive projects.

It has been my intention to provide you with some insights and advice so as to benefit from a few of the mistakes I have made in my investment strategies along the way. I hope this has helped lighten the path just a bit..

### **Bonus advice: Accept Responsibility for Your Actions**

When you have a losing deal or are in a no-win situation, don’t blame your tenant, your broker, your banker, or your dog. You are responsible for your own success or failure. If you make a bad decision, make a better one tomorrow.

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